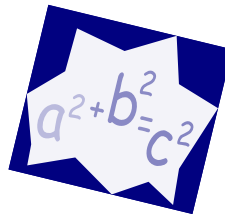


Defined Benefit Retirement Plan

Your Defined **Benefit** Retirement Plan uses a specific formula to determine your lifetime retirement benefit. It guarantees a specified monthly retirement benefit based upon that formula. Your monthly benefit will be paid to you for your lifetime. Following one year of retirement, your monthly benefit will be increased each January by a Guaranteed Annual Benefit Adjustment (GABA).

The formula is:

$$\begin{array}{l} \text{Membership Service Factor} \\ \times \\ \text{Highest Average Compensation (HAC)} \\ \times \\ \text{Service Credit} \end{array}$$



Let's define each component of the formula:

Membership Service Factor

The membership service factor for participants with:

- less than 25 years of membership service is 1.7857% (1/56).
- 25 or more years of membership service is 2.0% (1/50).

A full month of **membership service** is earned for any hours reported to the PERS by a participant's employer during any given month, regardless of the number of hours. One hour reported in a month will result in one month of membership service. Membership service is used to determine the membership service factor.

Highest Average Compensation

Highest average compensation (HAC) is your highest average monthly compensation during any consecutive 36 months of membership service.

Service Credit

A full month of **service credit** is earned when 160 hours or more is reported to the PERS by a participant's employer during any given month. If less than 160 hours are reported, proportional service credit is earned.

Often a participant's membership service and service credit differ. Part time employees tend to see the biggest difference.



Service Retirement

To be eligible for **service retirement**, you must meet one of the following requirements:

- Any age with 30 years of membership service
- Age 60, with at least 5 years of membership service
- Age 65 and in active service

Service Retirement Examples

Remember, your Defined **Benefit** Retirement Plan formula determines your guaranteed lifetime benefit. The following examples illustrate how the formula is applied in different circumstances.

Example 1: Drew

- 27 years of membership service and service credit
- 60 years of age
- \$3,000 per month HAC

Eligibility:

Drew's age, combined with his years of membership service, make him eligible for service retirement.

- He is age 60 with at least 5 years of membership service.

Membership Service Factor:

Drew's 27 years of membership service makes him eligible for the larger 2% factor.

- He has at least 25 years of membership service.

Benefit Calculation:

Drew's defined benefit calculation is 2% (membership service factor) times 27 (years of service credit) times \$3,000 (HAC), which provides an initial service retirement benefit of \$1,620 per month.

- **Calculation**

$$2\% \times 27 \times \$3,000 = \$1,620 \text{ Per Month}$$



Survivor Benefit:

If Drew wants to provide a survivor benefit, he would take a reduced monthly benefit. If Drew dies first, his survivor would receive all or a portion of that reduced monthly benefit. (See Payment Options)

Example 2: Mary

- 23 years of membership service and service credit
- 60 years of age
- \$3,000 per month HAC

Eligibility:

Mary's age, combined with her years of membership service, make her eligible for service retirement.

- She is age 60 with at least 5 years of membership service.

Membership Service Factor:

Mary's 23 years of membership service requires use of the 1.7857% factor.

- She has less than the 25 years of membership service required to use the 2% factor.

Benefit Calculation:

Mary's defined benefit calculation is 1.7857% (membership service factor) times 23 (years of service credit) times \$3,000 (HAC), which provides an initial service retirement benefit of \$1,232 per month.

- **Calculation**

$$1.7857\% \times 23 \times \$3,000 = \$1,232 \text{ Per Month}$$



Survivor Benefit:

Similar to Drew, if Mary wants to provide a survivor benefit, she would take a reduced monthly benefit. If Mary dies first, her survivor would receive all or a portion of that reduced benefit. (See Payment Options)

Early Retirement

You may not want to wait until you are eligible for service retirement to retire. Early retirement allows you to retire at a younger age or with fewer years of membership service than required under service retirement. However, early retirement means you may receive benefits for a longer time. Therefore, your benefits are reduced to adjust for the expected additional payments.

To be eligible for **early retirement** you must meet **one** of the following requirements:

- 25 years of membership service at any age
- Age 50, with at least 5 years of membership service

Early Retirement Benefit Calculation

Early retirement benefits are calculated using the same basic formula as service retirement benefits. The only difference is the use of an **early retirement factor (ERF)**. Simply multiply your service retirement benefit by your ERF.

Early Retirement Benefit Formula

- Membership Service Factor (1.7857% or 2.0%)
X
 - Highest Average Compensation (HAC)
X
 - Years of Service Credit
X
 - Early Retirement Factor (ERF)
- Basic Formula

The appropriate ERF may be determined by using the following chart. When both “Age” and “Years of Membership Service” apply to your situation, the MPERA will use the larger ERF to calculate your initial monthly benefit.

Early Retirement Factors		
Age	Early Retirement Factor (ERF)	Years of Membership Service
59	0.940	29
<u>58</u>	<u>0.880</u>	28
57	0.820	27
56	0.760	26
55	0.700	<u>25</u>
54	0.664	Members under age 50 with less than 25 years of membership service are not eligible for early retirement.
53	0.628	
52	0.592	
51	0.556	
50	0.520	

Early Retirement Example: Lauren

- 25 years of membership service and service credit
- 58 years of age
- \$3,000 per month HAC

Eligibility:

Lauren’s combination of age and years of membership service do not meet the eligibility requirements for service retirement.

- She is less than 60 years old.
- She has less than 30 years of membership service.

However, she is eligible for early retirement.

- She is at least age 50, and has at least 5 years of membership service.
- She is also eligible because she has 25 years of membership service.

Membership Service Factor:

Lauren's 25 years of membership service allows the use of the 2% factor.

ERF:

- Lauren's correct ERF is 0.88, because the ERF of 0.88 for age 58 is larger than the ERF of 0.70 for 25 years of membership service. (See Chart on Page 5)

Benefit Calculation:

Lauren's defined benefit calculation is 2% (membership service factor) times 25 (years of service credit) times \$3,000 (HAC) times 0.88 (ERF), which provides an initial monthly benefit of \$1,320 per month.

- **Calculation**

$$2\% \times 25 \times \$3,000 \times 0.88 = \$1,320 \text{ Per Month}$$



Survivor Benefit:

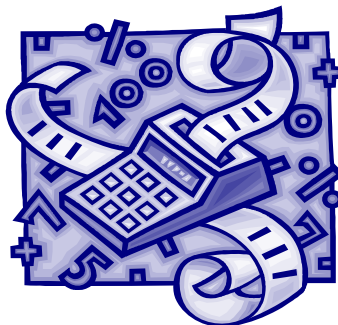
Similar to Drew and Mary, if Lauren wants to provide a survivor benefit, she would take a reduced monthly benefit. If Lauren dies first, her survivor would receive all or a portion of that reduced monthly benefit. (See Payment Options)

If you are eligible for early retirement, you may want to identify the ERF that applies to you.

Money Purchase Benefit

The **Money Purchase Benefit** is an alternative to the service or early retirement benefit. The Money Purchase Benefit may produce a higher benefit for participants who retire after a long period of **inactive** service.

At retirement, your initial monthly benefit is calculated using both the applicable Defined Benefit formula and the Money Purchase Benefit formula. You automatically receive the higher of the two benefit calculations.





Plan Features

Your Defined **Benefit** Retirement Plan has numerous features. These include:

- **Contributions**
- **Guaranteed Annual Benefit Adjustment (GABA)**
- **Five Year Vesting**
- **Purchase of Service**
- **Payment Options**
- **Death Benefits**
- **Disability Benefits**
- **Refunds**

Contributions

Both you and your employer contribute 6.9% of your compensation to the PERS.

Employee Contributions

You contribute 6.9% of your compensation to the PERS. Your 6.9% contribution is calculated on your gross compensation, before any pre-tax deductions. Your employer will withhold the contributions and send them to the PERS.

Employer Contributions

Employers contribute 6.9% of their total PERS covered payroll to the PERS. The State contributes 0.1% of the 6.9% for local governments and school districts.

Employer contributions provide “pooled” funds for:

- Retirement, disability and death benefits
- Education

Employer contributions are not refunded to participants.

Additional Contributions

Payments to purchase various types of optional service credit are the only method of contributing additional funds to the Defined Benefit Retirement Plan. (See Purchase of Service)

Guaranteed Annual Benefit Adjustment (GABA)

Whether you retire with a service retirement or an early retirement benefit, you are eligible for the Guaranteed Annual Benefit Adjustment (GABA). The GABA ensures a 3% increase in your benefit from the previous year.

- Eligible after 12 months of benefits
- Effective with the following January 1st benefit
- Ensures a 3% annual increase
- Applies to:
 - Service retirement benefits
 - Early retirement benefits
 - Disability benefits
 - Survivorship benefits

The GABA is **not** tied to inflation, but gives you and your family some inflation protection!

Five Year Vesting

- You are vested when you complete five years of membership service.
- “Vested” means that you are guaranteed a retirement benefit when you meet the age and service requirements for early or service retirement.
- Once vested, you may also be eligible for disability retirement.



Remember:

Vesting in the Defined **Benefit** Retirement Plan means you have the right to a benefit. The benefit is a lifetime cash flow in the form of monthly retirement payments.

Purchase of Service

Eligible participants may purchase various types of service. Participants purchase service to increase their retirement benefit. Service that may be purchased includes:

- Refunds*
- Retroactive*
- Absence Due to Illness or Injury *
- Montana Public Service
- Military
- Federal Volunteer Service
- Other Public Service

When you purchase the above listed service you receive both service credit and membership service.

When purchased service entitles you to both service credit and membership service, it may improve your early retirement factor **or** qualify you for:

- An earlier retirement
- The 2.0% factor for 25 years of membership service
- Vesting (*limited to 3 types of service listed above)

Another type of service you may purchase is:

- Additional ("1 for 5")

When you purchase "1 for 5" service, you receive service credit but no membership service. Therefore, it is not used to determine service retirement or early retirement eligibility.

Additional years of service credit will increase the amount of your benefit because service credit is used in the formula.

If you are interested in purchasing service, you must send a written request to the MPERA. The MPERA will assist you in determining:

- If you are eligible to purchase service
- The amount you may purchase
- The cost of your purchase

Only you can determine if purchasing service would be to your advantage. You may wish to contact a financial or tax advisor to assist with your determination.

Payment Options

As a Defined **Benefit** Retirement Plan participant, you have several benefit payment options at retirement.

Option 1: Lifetime Retirement Benefit

Option 2: Joint and 100% Survivor

Option 3: Joint and 50% Survivor

Option 4: Lifetime Benefit with Period Certain

- 10 Year Period Certain
- 20 Year Period Certain

You may choose the payment option that best meets your personal circumstances, financial needs and objectives. Although you will not select your payment option until you retire, a general understanding of your options may be helpful in making your retirement plan choice.

Both the **service** and **early** retirement formulas calculate **Option 1: Lifetime Retirement Benefit**.

- Option 1 pays the largest monthly benefit for your life. The monthly benefit ends upon your death. However, your **beneficiary** will receive any balance left in your account. That account balance is the amount available at retirement less the total benefits already paid to you. Retirees typically exhaust their account balance in 3 to 5 years.

In contrast, each of the alternatives to Option 1 involves a reduction in your benefit in exchange for continuing benefits to your **contingent annuitant** after your death.

- Option 2 pays you less than Option 1. After your death your contingent annuitant receives the same benefit you received.
- Option 3 pays you less than Option 1, but more than Option 2. After your death, your contingent annuitant receives half of the benefit you received.
- Option 4 pays you a lifetime benefit and may pay a continuing benefit to your contingent annuitant. If you die before the end of the certain or guaranteed period (10 or 20 year period certain), your contingent annuitant receives the benefit until the guaranteed period ends.

Beneficiary:

The person named by an Option 1 retiree, or by an **active** or **inactive** participant, to receive any survivorship benefits or lump-sum payments after the participant's death.

Contingent Annuitant:

A person named by the **retired** participant to receive a continuing benefit after the participant's death.

The beneficiary and the contingent annuitant may be the same or a different person.

Service Death Payment

A service death payment will be paid to your beneficiaries if you die:

- While in active service
- Within 6 months after terminating active service, but before receiving a retirement benefit
- Within 6 months after a disability benefit begins
- While disabled, if you have been continuously disabled since leaving active service and are not receiving a disability retirement benefit

The service death payment includes your account balance and an amount calculated as 1/12 times your last 12 months of pay times the lesser of 6 or your years of service credit. This is usually a half year of salary. For example, Jim has an account balance of \$50,000 and 14 years of service credit, and dies.

Jim's Death Payment Calculation	
\$30,000 <u>x 1/12</u>	Last 12 Months of Salary Equals \$2,500
\$2,500 <u>x 6</u>	Lesser of 6 or 14 Years Service Credit
\$15,000 <u>+ \$50,000</u>	Account Balance
\$65,000	Death Payment

Beneficiaries may receive the death payment as a lump sum or as a fixed monthly annuity payment. Annuity payments under a death payment are not entitled to receive the GABA.

Survivorship Benefit

A vested member's beneficiary who is eligible for a **death payment** may choose a **survivorship benefit** instead. The survivorship benefit is a lifetime monthly payment, which is often more than the monthly annuity payments under the death payment.

The GABA applies to a survivorship benefit. Beneficiaries must apply for a **survivorship benefit** within 90 days of receiving notice that they are eligible for a death payment.

Remember:

Keep your beneficiary information up to date. You can update your beneficiary information by completing a PERS membership card and submitting it to your payroll clerk. Your payroll clerk must forward the membership card to the MPERA.

Disability Benefits

The Defined **Benefit** Retirement Plan has a disability benefit provision. You must apply to the Public Employees' Retirement Board (the Board) to receive disability benefits. Once the Board determines you are disabled, you must terminate employment before your benefit payments may begin.

When you start receiving disability benefits, you may be subject to on-going medical reviews to document your continued disability status. Subject to these medical reviews disability payments continue to age 60, at which time your disability benefit automatically converts to a service retirement benefit. Your benefit is **not** recalculated when it is converted.

Refunds

If you terminate your employment, whether you are vested or not, and wish to take a refund, you will receive only your contributions plus interest. You may receive your refund as a taxable lump sum or roll it into another eligible retirement plan or IRA.

By taking a refund, you give up all rights to any benefits from the PERS.

The best plan for a particular employee depends on personal and financial circumstances. The choice is yours.

If you would like more detailed information regarding your Defined Benefit Retirement Plan, you may access the PERS DBRP handbook from the MPERA website at <http://www.mpera.mt.gov>